

**CITY OF LETTS, IOWA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2015 THROUGH JUNE 30, 2016**

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## Officials

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Name	Title	Term Expires
<b>Officials</b>		
Jerry Kirk	Mayor	December, 2017
Kevin Bunch	Council Member	December, 2017
Judi Phillips	Council Member	December, 2017
Fred Failyer	Council Member	December, 2019
Bill Kemp	Council Member	December, 2019
Barb Thompson	Council Member	December, 2019
Karen Koppe	City Clerk/Treasurer	Indefinite

## **Independent Accountant's Report on Applying Agreed-Upon Procedures —**

To the Honorable Mayor and  
Members of the City Council  
City of Letts, Iowa

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Letts for the period July 1, 2015 through June 30, 2016. The City of Letts' management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of noncompliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Letts, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Letts, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Letts and other parties to whom the City of Letts may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*HOGAN - HANSEN*

HOGAN - HANSEN

Traer, Iowa  
August 17, 2016

## Detailed Recommendations

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## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (A) **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system - performing all general accounting functions and having custody of assets.
- (2) Cash - handling, reconciling and recording.
- (3) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities - billing, collecting, depositing, posting and maintaining detailed accounts receivable and write-off records.
- (5) Debt - recordkeeping, compliance and debt payment processing.
- (6) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll - recordkeeping, preparing, signing and distributing.

**Recommendation** - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) **Petty Cash** - The City's petty cash funds were not included in the City's accounting records and resulting fund balances.

**Recommendation** - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including petty cash, should be included in the Clerk's accounting system.

- (C) **Management Financial Information** - A monthly Clerk's report, including a summary of revenue, disbursements, transfers and ending balances by fund, is not prepared. In addition, a comparison of actual disbursements to budget by function was not prepared.

**Recommendation** - To provide better financial information, the Clerk's monthly financial report should include the beginning balance, receipts, disbursements, transfers and ending balances for each fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendment to the certified budget, the Clerk's monthly financial report to the City Council should also include comparisons to the certified budget by function.

## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

(D) **City Council Minutes** - The following were identified:

- (1) Chapter 380.7 of the Code of Iowa requires minutes to be signed by the Clerk. None of the minutes tested were properly signed.
- (2) Chapter 21.3 of the Code of Iowa requires minutes to show information sufficient to indicate the vote of each member present. Three of the four months tested did not show information sufficient to indicate the vote of each member present.
- (3) The City did not retain copies of the published minutes. Therefore, we were unable to test whether the minutes were published in accordance with the Code of Iowa.

**Recommendation** - The City Clerk should comply with Chapter 380.7 of the Code of Iowa by properly signing City Council minutes. In addition, the City Council minutes should show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa. Lastly, the City should retain copies of the published minutes.

(E) **Bank Reconciliations** - We reviewed bank reconciliations and noted the following:

- (1) Bank reconciliations were not performed from July, 2015 to December, 2016.
- (2) The bank reconciliations that were prepared were not reviewed by an independent person.
- (3) We were unable to trace reconciled balances to general ledger cash account balances and to monthly reports provided to the City Council because the City does not maintain a general ledger for cash accounts and monthly reports are not provided to the City Council.
- (4) While outstanding check listings included check numbers and amounts, the lists did not include the dates the checks were written.

**Recommendation** - To improve financial accountability and control, each month bank reconciliations should be performed and retained, and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review. The City should maintain general ledger accounts for cash. Also, the City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements, transfers and ending balances by fund. The City Council should review and approve the Clerk's report monthly. Lastly, the outstanding check list should detail the check number, payee and date written in addition to the amount outstanding.

(F) **Disbursements** - We reviewed 30 disbursements and the following were identified:

- (1) Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for 13 of 30 disbursements tested could not be located, totaling \$5,706.64.
- (2) While the amounts of all disbursements were recorded in the general ledger, the payee on the checks or credit card statements were not recorded in the general ledger.



## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (3) Certain check disbursements were not approved by the City Council. 11 of 30 disbursements tested were not approved by the City Council, totaling \$3,472.72.
- (4) Certain credit card disbursements were not approved by the City Council. One credit card disbursement was not approved by the City Council, totaling \$102.95.
- (5) The City does not use the Uniform Chart of Accounts (COA). Therefore, none of the disbursements tested were classified by function in accordance with the recommended COA.

**Recommendation** - All disbursements should be supported by invoices or other supporting documentation, and each invoice should be approved by the City Council. The City should include the payee for each disbursement in the general ledger. To provide better financial information and control, the COA, or its equivalent, should be followed and all disbursements should be classified by function.

- (G) **Certified Budget** - The City did not classify disbursements by function; therefore, we were unable to determine if disbursements by function were within the budget.

**Recommendation** - To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk should properly classify disbursements by function in accordance with the COA.

- (H) **Prenumbered Receipts** - Prenumbered receipts were not issued for all cash collections and an initial listing of collections were not prepared.

**Recommendation** - Prenumbered receipts should be issued for all cash collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (I) **Surety Bond Coverage** - Documentation could not be located for surety bond coverage for City officials and employees for the year ended June 30, 2016, as required by Chapter 64 of the Code of Iowa.

**Recommendation** - The City should comply with Chapter 64 of the Code of Iowa and should maintain supporting documentation of the surety bond coverage.

- (J) **Cash Receipts** - The following were identified:

- (1) Sewer cash receipts in the amount of \$1,672.41 were improperly recorded as property tax revenue.
- (2) Three Local Option Sales Tax receipts in the amounts of \$1,834.63, \$524.68 and \$1,889.91 were received per the City's bank statements. However, these amounts were not recorded to the general ledger.

**Recommendation** - The City should establish procedures to ensure all cash receipts are recorded, accurate and properly classified within the general ledger.

## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (K) **Chart of Accounts** - The City has not implemented the City Finance Committee's (CFC) recommended COA for Iowa City Governments approved by the CFC on September 25, 2002. Therefore, we were unable to determine whether disbursements by function were within the budgeted amounts. We were also unable to determine if disbursements were properly classified by function. In addition, the City had no other chart of accounts.

**Recommendation** - To provide better financial information and control, the recommended COA or its equivalent should be followed.

- (L) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

**Recommendation** - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

- (M) **Accounting Policies and Procedures Manual** - The City does not have an accounting policies and procedures manual.

**Recommendation** - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.

- (N) **Section 148** - The City does not have written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code.

**Recommendation** - The City should establish written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code.

- (O) **Local Option Sales Tax (LOST)** - The City did not have a copy of the most recent LOST ballot or revenue purpose statement. In addition, the City has not been tracking the use of LOST receipts.

**Recommendation** - The City should retain a copy of the LOST ballot and revenue purpose statement. In addition, the City should implement procedures to account for LOST disbursements and transfers to ensure LOST receipts are being used in accordance with the ballot.

- (P) **Payroll** - There was no supporting documentation that the City Council had approved salaries of the employees tested.

**Recommendation** - The City Council should approve and document pay rates for City employees at the time of hiring and when raises occur. The documentation should be in the City Council meeting minutes and a copy in the employees' personnel file.

## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (Q) **Checks Signed in Advance** - Certain checks are signed before the check payee and amount are completed.

**Recommendation** - Checks should not be signed in advance.

- (R) **Debt** - The following were identified:

- (1) The City does not use fund accounting and it does not use the COA. Therefore, general obligation debt and other debt is not properly accounted for.
- (2) Amortization schedules and other supporting documentation related to payments made could not be located for four of the five loans outstanding during 2016. Therefore, we were unable to determine if debt payments made and recorded were accurate.
- (3) The City received debt proceeds in 2016. However, the City does not maintain a balance sheet. Therefore, the loan proceeds were not properly recorded in the City's records.
- (4) The City had no debt agreements or other supporting documentation for three of the five loans. Therefore, we were unable to determine if these loans were general obligation debt or some other type of debt.

**Recommendation** - The City should establish procedures to ensure fund accounting, the COA and a balance sheet are used to properly account for debt activity. In addition, the City should maintain amortization schedules, statements, debt agreements and other supporting documentation for payments made and loans held by the City.

- (S) **Annual Financial Report (AFR)** - The following were identified:

- (1) The City Clerk was unable to locate the report used to determine receipts and disbursements for fiscal year 2015. Therefore, we were unable to determine if the amounts reported on the AFR agreed to the City's records, and while Road Use Tax transactions were reported as a special revenue fund on the AFR, we were unable to determine if amounts recorded were accurate.
- (2) Beginning governmental and proprietary funds per the AFR of \$13,109 and \$20,976 did not agree to the City's records of \$32 and \$667.
- (3) Ending governmental and proprietary funds per the AFR of (\$3,517) and \$7,424 did not agree to the City's records of \$8,319 and \$1,980.
- (4) While the City had outstanding debt balances and activity during fiscal year 2015, no amounts were reported on the AFR.

**Recommendation** - The City should retain accounting records which support the AFR. The City should establish procedures to ensure fund balances on the AFR agree to the City's records. The City should also establish procedures to ensure all debt activity and outstanding balances are reported on the AFR and to ensure the amounts are accurate and complete.

## Detailed Recommendations

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For the Period July 1, 2015 through June 30, 2016

- (T) **Financial Condition** - The City does not use fund accounting. In addition, while a separate bank account is used for the Library Fund and Sewer Fund, only one bank account is used for the General Fund, Road Use Tax Fund and Local Option Sales Tax Fund. Therefore, we were unable to determine if the General Fund, Road Use Tax Fund or Local Option Sales Tax Fund had deficit fund balances.

**Recommendation** - The City should establish procedures to ensure fund accounting and a balance sheet are used to properly account for fund activity.

- (U) **Capital Project Fund** - The debt agreement for debt issued in fiscal year 2015 requires that a capital project fund be used. The City does not use fund accounting and therefore a capital project fund has not been established.

**Recommendation** - The City should establish a capital project fund as required by the debt agreement.

- (V) **Transfers** - The City had transfers between the sewer bank account, library bank account and one other bank account. However, the City does not use fund accounting or a balance sheet. Therefore, these transfers were not properly recorded in the City's records. In addition, transfers were not approved by the City Council or as a part of the City's annual budget.

**Recommendation** - The City should establish procedures to ensure fund accounting and a balance sheet are used and to ensure transfers are properly recorded. In addition, the City Council should approve all fund transfers prior to the actual transfer and document approval and amounts as part of the minutes or as part of the City's annual budget.

- (W) **City Officials' Utilities** - Two City officials made utility payments by having the amount withheld from amounts owed to them for attending City Council meetings. However, supporting documentation was not maintained to support this.

**Recommendation** - The City should maintain supporting documentation sufficient to indicate the total amount due to City officials for meetings attended and what was withheld for utility payments.